

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

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JUL 17 1998
FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

In the Matter of)	
)	
1998 Biennial Regulatory Review –)	CC Docket No. 98-81
Review of Accounting and Cost)	
Allocation Requirements)	

COMMENTS OF SPRINT LOCAL TELEPHONE COMPANIES

Pursuant to Section 11 of the Communications Act of 1934, as amended, the Commission has conducted a review of its regulations concerning accounting and cost allocation rules affecting telecommunications carriers. On June 17, 1998, the Commission issued a Notice of Proposed Rulemaking in this matter inviting comment on suggested changes resulting from that review. As summarized at paragraph 2 of the June 17th NPRM, these changes include raising "the threshold significantly for required Class A accounting thus allowing mid-sized carriers currently required to use Class A accounts to use the more streamlined Class B accounts...establish less burdensome cost allocations manual ("CAM") procedures for the mid-sized incumbent local exchange carriers ("LECs") and to reduce the frequency with which independent audits of the cost allocations based upon the CAMs are required...[and] propose several changes to our Uniform System of Accounts ("USOA") to reduce accounting requirements and to eliminate or consolidate accounts." The Sprint Local Telephone Companies

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("Sprint") respectfully offer the following comments on the Commission's proposal.

I. Class A/Class B Accounting Requirements

The Commission's initial proposal is to streamline accounting requirements for mid-sized LECs. It would accomplish this objective by permitting those affiliated LECs with aggregated revenues of less than \$7 billion to be eligible for Class B accounting treatment. The Commission reasons that, because mid-sized LECs tend to conduct fewer transactions involving competitive products and services, they correspondingly have fewer opportunities to engage in improper cross-subsidization. Consequently, it is unnecessary to elicit from the mid-sized carriers the volume of information required of Class A companies.

Sprint applauds the Commission's recognition that mid-sized LECs, such as the Sprint LECs, require relief from the administrative burdens that accompany Class A carrier status. The Commission is correct in its expressed belief that the level of detail required of a Class B company will allow for more than adequate monitoring of the activities of mid-sized LECs. Moreover, as the Commission also noted, even by accepting the changes proposed here, it will continue to receive Class A accounting data from those carriers comprising approximately 90% of the LEC industry, thus ensuring that its oversight of the industry as a whole will remain intact. Therefore, Sprint encourages the

Commission to adopt its proposal as outlined in paragraphs 4 through 6 of the NPRM.

As a final comment on this point, Sprint notes that its reading of this portion of the Commission's Notice indicates that, while the Sprint LECs currently filing ARMIS reports under the existing Tier I/Tier II distinctions would still be required to file these reports, they would do so as Class B companies. Sprint reaches this conclusion based on the fact that the treatment of a carrier as Class A or B for ARMIS reporting should correspond directly to that carrier's status for accounting and cost allocation manual ("CAM") reporting purposes. Since the Commission proposed applying Class B accounting requirements as well as CAM reporting requirements (discussed below) to mid-sized LECs, it logically follows that these same carriers will be accorded Class B status for ARMIS reporting purposes as well.

In response to the Commission's invitation at paragraph 19 to offer suggestions regarding other filing requirements that could be eliminated, Sprint recommends that the Commission consider eliminating completely the ARMIS reporting requirements for Class B LECs. A natural continuation of the arguments for establishing the aggregate \$7 billion threshold for Class B status would be to conclude that detailed ARMIS reporting is unnecessary to monitor regulatory compliance. The filing of CAMs, coupled with the external attestation audits, would provide the necessary assurance to the Commission that the Class

B LECs were in compliance with Commission rules. Moreover, removing the ARMIS requirement for Class B companies would eliminate a significant reporting requirement that is of questionable value. To the extent that complete elimination of ARMIS is deemed unacceptable at this stage, Sprint suggests that, at a minimum, the Commission raise the existing Tier I limit for individual LECs of \$112 million (for 1997) to limit further the number of individual LECs required to file ARMIS.

At paragraph 7 of the NPRM, the Commission asks whether mid-sized LECs should be required to maintain subsidiary record categories to provide the data on pole attachment formulas now provided in the Class A accounts, and to report in ARMIS the information in those accounts as well as other information required by the pole attachment formula. Sprint maintains that, while additional detail necessary for the pole attachment formula should be maintained in subsidiary records, the Commission should not formalize this data by requiring it to be contained within ARMIS reports. Should the Commission require access to the data contained in these subsidiary accounts, it can easily request it from the relevant LEC.

Finally, at paragraph 8 of the NPRM, the Commission tentatively concludes that it will no longer maintain the difference between the application of the indexed revenue threshold for Part 32 and Part 64 purposes. Sprint agrees

with this tentative conclusion. It is assumed that, as a necessary corollary to this action, the \$7 billion threshold will be indexed for inflation.

II. CAM Requirements for Mid-Sized LECs

In keeping with its previous conclusion that mid-sized LECs should be permitted to maintain their accounts as Class B carriers, at paragraph 10 of the NPRM, the Commission tentatively concludes that it will permit mid-sized LECs to submit their CAM based upon the Class B system of accounts. The Commission explains that its intention in taking this action is to reduce the reporting burden of the nonregulated activity matrix and the cost apportionment sections of the CAM. For the reasons discussed above with respect to Class B accounting treatment for mid-sized LECs, Sprint concurs in the Commission's conclusion that mid-sized LECs be permitted to file their CAMs as Class B carriers.

Similarly, Sprint supports the Commission's conclusion, outlined in paragraph 11, that mid-sized LECs be required to obtain an audit every two years rather than annually and that they be attestation audits, replacing the full compliance audits of today. This change will result in significant savings to the mid-sized LECs, both in terms of time and audit fees, while keeping intact the Commission's important audit function. It will also allow the Commission to concentrate its audit resources more efficiently by focusing its efforts on those Class A LECs that represent 90% of the LEC industry.

Sprint understands that these modified CAM filing and audit requirements would apply to mid-sized LECs currently required to file CAMs and have independent audits under the existing Tier I/Tier II distinctions.

In light of the direction being taken here by the Commission with respect to the CAM, the action recently taken by the Commission staff in the context of Responsible Accounting Officer Letter 26, Transactions with Affiliates ("RAO 26")¹ is befuddling. RAO 26, if implemented, will contradict the Commission's stated intent in this matter by *increasing* CAM filing burdens. For example, RAO 26 requires carriers to utilize a new, inflexible reporting format that will cause multiple entries for a single transaction. Thus, while as Class B carriers, Sprint LECs would be required to provide cost allocation procedures for less than one-third of the accounts of Class A carriers, RAO 26 will work to erase any benefit of that reduction in reporting requirements. Sprint has formally requested that the Commission vacate RAO 26.² It repeats that request here. Should the Commission uphold RAO 26, it should specifically exempt Class B companies from compliance with its directives in an effort to reconcile the incongruous mandates of RAO 26 and the Commission's biennial review.

¹ The Accounting Safeguards Division on May 6, 1998 issued RAO 26. On June 4 and 5, 1998, BellSouth and SBC, respectively, requested review of the letter. On July 13, Sprint filed comments in support of the Applications for Review.

² *Id.*

III. Accounting Changes

In paragraphs 13 through 16, the Commission tentatively proposes to consolidate Accounts 2114, 2115 and 2116 as well as Accounts 6114, 6115, and 6116. Sprint agrees that collapsing these accounts, as recommended, will result in reducing the carrier's accounting and reporting burdens and will not affect jurisdictional separations. The Commission should, therefore, adopt its tentative conclusion on this point.

Similarly, Sprint urges the Commission to proceed with its recommendations, as set forth in paragraph 16 (the elimination of Account 5010); paragraph 17 (the revision of Section 32.16 to require only current year revenue requirement studies); and paragraph 18 (the revision of Section 32.2000(b) to eliminate the routine filing of journal entries made to record acquisitions of telecommunications plant).

IV. CONCLUSION

Sprint is encouraged by the direction taken in the Commission's biennial review and the concomitant proposals for change that have resulted. While Sprint understands that these changes, if adopted, would be applicable to the interstate jurisdiction alone, it is compelled to express here its belief that in order to gain the full benefits of the modifications proposed herein, state regulators must mirror the Commission's actions. It is Sprint's fervent hope that the states

will quickly follow this Commission's lead and lessen the regulatory reporting burdens placed upon mid-sized LECs.

Respectfully submitted,
SPRINT LOCAL TELEPHONE COMPANIES

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July 17, 1998

CERTIFICATE OF SERVICE

I, Melinda L. Mills, hereby certify that I have on this 17th day of July 1998, served via U.S. First Class Mail, postage prepaid, or Hand Delivery, a copy of the foregoing "Comments of Sprint Corporation" in the Matter of 1998 Biennial Regulatory Review – Review of Accounting and Cost Allocation Requirements, CC Docket No. 98-81, filed this date with the Secretary, Federal Communications Commission, to the persons on the attached service list.


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